STATE OF NEW JERSEY
Office of the Attorney General
Department of Law and Public Safety
Division of Gaming Enforcement

In the Matter of the Petition of Caesars Entertainment Corporation (Caesars or CEC) and Caesars Four Casino Licensees Namely, Showboat Atlantic City Operating Company, LLC (Showboat), Harrah's Atlantic City Operating Company, LLC (Harrah's AC), Bally's Park Place, Inc. (Bally's) and Boardwalk Regency Corporation (BRC) For an Order Seeking Approval of a Material Debt Transaction Pursuant to *N.J.A.C.* 13:69C-4.3(a)	)	ORDER PRN 0311202

It is ordered that the attached letter dated February 17, 2012, by Deputy Attorney General John E. Adams, Jr. regarding the request for approval of a material debt transaction, for the reasons expressed therein, is hereby adopted.

Dated: February 17, 2012

David Rebuck/mjf
DAVID REBUCK
DIRECTOR

Casino Licensing

State of New Jersey

Chris Christie
Governor

Kim Guadagno
Lt. Governor

Office of the Attorney General
Department of Law and Public Safety
Division of Gaming Enforcement
P.O. Box 047
Trenton, NJ 08625-0047

Jeffrey S. Chiesa
Attorney General

David Rebuck
Director

February 17, 2012

Paul O'Gara, Esq.
Sterns & Weinroth
50 West State Street
Suite 1400
P.O. Box 1298
Trenton, NJ 08607-1298

RE: Caesars Entertainment Corporation - Request to Approve Material Debt Transaction

Dear Mr. O'Gara:

In your letter dated January 31, 2012, you advised that pursuant to *N.J.A.C.* 13:69C-4.3(a), Caesars Entertainment Corporation (CEC) and its four casino-license subsidiaries, Showboat Atlantic City Operating Company, LLC (Showboat), Harrah's Atlantic City Operating Company, LLC (Harrah's), Bally's Park Place, Inc. (Bally's), and Boardwalk Regency Corporation (BRC), seek approval of a material debt transaction to be undertaken through a qualified holding company, Caesars Entertainment Operating Company, LLC (CEOC and, with CEC, Showboat, Harrah's, Bally's and BRC, the Company). You expressed your view that such transaction would not adversely affect the financial stability of Showboat, Harrah's, Bally's and BRC or any holding company thereof. Your letter also states that the material debt transaction involves an extension of the Existing Term Loans (described hereinafter) by three years and the issuance of approximately $1 billion of first lien bonds to new investors. Based upon the information provided in your letter and other materials supplied,[1] the Company asks that the Division of Gaming Enforcement (Division or DGE) approve the material debt transaction.

Initially, the elements of the material debt transaction focused on the Company's 2014 and 2015 obligation maturities, more specifically, the 2014 maturity date of an approximate $1.2 billion revolving credit facility (Revolver) and the 2015 maturity date for $4 billion in outstanding Term Loans. Subsequent to the initial request, and according to an SEC Form 8-K filed by CEC on February 13, 2012, lenders holding $2.7 billion in principal amount of Existing Term Loans consented to an extension of the maturity date to 2018, while the proposal to extend the maturity date of the Revolver was unsuccessful.

Term Loan

Term Loan Extension: As of September 30, 2011, the Company had $11.1 billion in debt scheduled to mature in 2015, including $5 billion in Existing Term Loans. As part of the material debt request, CEC sought the consent of lenders to extend the maturity date on up to $4 billion in Existing Term Loans by three years, from January 28, 2015 to January 28, 2018 (Extended Term Loans). According to an SEC Form 8-K filed by CEC on February 13, 2012, CEC obtained the consent of lenders to extend approximately $2.7 billion in Existing Term Loans to 2018.[2] In exchange for the extension, the consenting lenders will receive approximately $1.05 billion in cash from the issuance of new notes (New Notes) on a pro rata basis as a partial repayment of their outstanding loans discussed below. In addition, the interest rate on the Extended Term Loans would increase from LIBOR+3.0% to LIBOR+5.25%.

New Notes: In connection with the extension of the Term Loans discussed above, CEC intends to issue up to $1.25 billion in first lien notes maturing in 2020 (New Notes), with closing on the notes into escrow anticipated on February 14, 2012. Assuming that $1.05 billion of the proceeds are used to repay the term loans, the remaining $200 million (less issuance and professional costs) would be available to the Company for working capital purposes. The New Notes are expected to have a fixed interest rate of 8.5%, compared to the variable interest rates on both the Existing Term Loans (approximately 3.25%) and the Extended Term Loans (approximately 5.5%).

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[1] The Division's Office of Financial Investigation (OFI) review included a regulatory presentation submitted on January 31, 2012, two SEC Form 8-K's filed by CEC on or about February 2 and 13, 2012, and revised and updated pro forma debt scenarios provided on February 10, 2012.

[2] The Extended Term Loans will have a "springing maturity" to April 14, 2017 if more than $250 million of the $2.095 billion in the Company's 11.25% Senior Secured Notes due June 2017 ($1.375 billion) and September 2017 ($720 million) remain outstanding on April 14, 2017.

Impact on Interest Expense and Long-Term Debt

In connection with the material debt request, the Company was asked to provide forecasts showing the impact of the proposed transactions on interest expense, debt levels, Revolver availability, and the Senior Secured Leverage Ratio (Leverage Ratio, the sole financial covenant under the Term Loans and Revolver). While different scenarios were provided by the Company over the past few weeks, the forecast that approximated the final outcome was provided on February 10, 2012. CEC submitted a pro forma summary for 2012 through 2016 based upon a "low participation" level of $2.5 billion in Existing Term Loans (which has been disregarded based on subsequent events) and a "current pro forma participation" level of $2.75 billion in Existing Term Loans upon which the Division has relied.

Under the current pro forma participation scenario, which is very close to the actual participation amount of $2.7 billion, CEC expects cash interest expense to increase by $108.7 million for 2012 (6.4%) and $117.1 million for 2013 (7.0%) compared to the current structure. Long-term debt would be $146.4 million (0.7%) and $263.5 million (1.2%) higher at year-end 2012 and 2013, respectively.

Conclusion

With regard to being able to satisfy the increased debt service requirements, the current pro forma participation projects a minimum availability on the Revolver of around $1.1 billion at year end 2012 and approximately $662 million at year-end 2013. Thus, CEC projects an ability to fund debt service and other cash needs through 2013, while having ample flexibility under the Revolver to withstand potential cash flow shortfalls. The Division concurs with that forecast. While the Leverage Ratio under the two scenarios are expected to be slightly higher than the current situation,[3] the projected ratios are below the maximum threshold, and thus, in compliance. In light of the magnitude of the maturing obligations, especially in 2015, the Division agrees with management that it is prudent now to take steps and begin the process of extending those maturities. The Division notes that the cost to do so, increased interest expense and debt levels, was a result of negotiations with the lenders. The Division opines that it would be risky for the Company to defer refinancing until the maturity date is nearer (for example, potentially much higher interest rates on new debt may apply at a future time).

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[3] The projected Leverage Ratio under both participation scenarios is 4.4 times at year-end 2012 and 2013. The maximum Leverage Ratio under the Term Loan and Revolver is 4.75 times.

This is approximately the ninth material debt transaction request that has been reviewed by the Division since late-December 2008. Similar to the other transactions, the Division believes that this material debt request is another step by the Company to weather the economic storm and remain viable under its debt structure. Based primarily on the benefits provided by extending the maturity dates and the projected availability under the Revolver, the Division approves the material debt transaction request pursuant to *N.J.A.C.* 13:69C-4.3(a), subject to the filing of all final documents with the Division within 10 days of consummation of the transactions. The Division, as it has done in the past, will continue to monitor the financial situation of the Company as events and circumstances unfold, especially with regard to the January 28, 2014 maturity of the $1.2 billion Revolver and the January 28, 2015 maturity of an estimated remaining $2.1 billion in Existing Term Loans.

Be advised that this writing is not effective unless an order signed by the Director is appended hereto.

Sincerely,

John E. Adams, Jr.

John E. Adams, Jr.
Deputy Attorney General

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